

CARES Act: Tax changes affecting individuals - Part 1

By Eva Stark, JD, LL.M.

(Part 1 of a 2-part series)



The Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27th, 2020. While there has been much focus—even frenzy—around the benefits conferred on businesses by the more than \$2 trillion economic relief package, there has been less discussion about provisions that may benefit individuals, which mainly involve changes to tax-advantaged health accounts, charitable deductions, a refundable tax credit, suspension of required minimum distributions and easier access to retirement plans through distributions or loans. Part I of this article discusses all of the

above except the provisions involving enhanced access to retirement accounts, which will be the focus of Part 2.

Expanded Use of Tax-Advantaged Health Accounts

Individuals may be able to use tax-advantaged health accounts—such as HSAs or FSAs—for certain over-the-counter medications. Tax-advantaged health accounts may additionally be used to purchase certain feminine products. Under previous law, such accounts could only be used for over-the-counter medications with a doctor's

prescription. This deterred many taxpayers from fully utilizing their accounts, as obtaining a prescription could be time-consuming and costly.

Bigger Charitable Deductions

NEW ABOVE-THE-LINE DEDUCTION.

Beginning in the 2020 tax year, taxpayers who do not itemize deductions may be eligible to take an above-the-line deduction for up to \$300 in eligible cash contributions to qualifying charities. Qualifying charities generally do not include certain private foundations, supporting organizations and donor-advised funds.

HIGHER AGI PERCENTAGE

LIMITATION. The adjusted gross income or AGI percentage limitation for cash contributions by individuals to qualifying charities has been suspended for the 2020 tax year. Under previous law, the deduction an individual could receive for a qualifying charitable cash contribution was limited to 60% of the taxpayer's AGI. Contributions to certain private foundations, supporting organizations and donor-advised funds are generally ineligible for this increased limit.

Refundable Tax Credits

Individuals with adjusted gross income under \$75,000 (\$150,000 for married filing jointly) may be eligible for a \$1,200 (\$2,400 for married filing jointly) tax credit, plus \$500 for each dependent under age 17. Above this level, the credit is phased out by \$5 for each \$100 of additional income. The credit is completely phased out for those with income in excess of \$99,000 (\$198,000 for married filing jointly).

While the credit is technically for tax year 2020, individuals' level of income for 2020 is yet to be seen. As a result, the advanced rebates were based on income for tax years 2019 or 2018 at the time of issuance. Individuals who received a rebate because their income was below threshold levels in 2018 or 2019, but whose 2020 income will exceed such levels, will not be required to repay their rebates. Individuals who did not receive a rebate because their 2019 or 2018 income was too high, but whose income will be below these thresholds in 2020, may be eligible for the rebate upon filing of their 2020 tax return.

Suspension of 2020 Required Minimum Distributions

Qualified plan participants and IRA owners will not be required to take required minimum distributions for 2020. Individuals need not be adversely affected by COVID-19 to take advantage of this benefit.

The RMD suspension also applies to beneficiaries who have inherited accounts. Qualified plan participants or IRA owners who have already taken an RMD and would like to "undo" the distribution might consider a 60-day rollover of the distribution, if requirements for such a rollover would otherwise be met. Beneficiaries of inherited IRAs or plans cannot roll over distributions. If the 60-day rollover window has passed, individuals might also take advantage of the extended deadline for rollover distributions set out in Notice 2020-23. The notice extended the deadline for rollovers that had to be completed between April 1, 2020, and July 14, 2020, to July 15, 2020. Those affected by COVID-19 might also explore treating the distribution as a "Coronavirus-Related Distribution" and repaying it within three years.

See the upcoming Part 2 of this article for more details on Coronavirus-Related Distributions and Coronavirus-Related Loans.



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As a result of the Tax Cuts and Jobs Act of 2017 (TCJA) the estate, gift and generation skipping transfer (GST) tax exemption amounts increased to approximately \$11.18 million per person (approximately \$22.36 million for a married couple). For assets transfers in excess of the applicable exemption amount and otherwise subject to such taxes, the highest applicable federal tax rate remains at 40 percent. While the exemption amounts are indexed for inflation, current law provides for an automatic sunset of these increased exemption amounts after 2025. As a result, the exemption amounts available in 2026 and beyond could be reduced to a level provided under prior law (\$5.49 million/single and \$10.98 million/couple in 2017, indexed for inflation) absent further action by Congress. In addition, under different rates, rules and exemption amounts (if any), there may be state and local estate, inheritance or gift taxes that apply in your circumstances. Please consult your own tax or legal advisor for advice pertaining to your specific situation. This material includes a discussion of one or more tax related topics. This tax related discussion was prepared to assist in the promotion or marketing of the transactions or matters addressed in this material. It is not intended (and cannot be used by any taxpayer) for the purposes of avoiding any IRS penalties that may be imposed upon the taxpayer. The Nautilus Group® is a service of New York Life Insurance Company. Nautilus, New York Life Insurance Company, its employees or agents are not in the business of providing tax, legal or accounting advice. Individuals should consult with their own tax, legal or accounting advisors before implementing any planning strategies. SMRU 1858987 Exp. 6/9/2022